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COMMANDERS DIGEST

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Services: Key To Success

DoD 'Participatory Management' Aims Are Stressed

By Lee Cowan
CD Staff Writer

"In keeping with current management philosophy for wider participation in program planning, the Services are required to think systematically about the costs and benefits of alternatives to current and planned programs." These are the words of Robert C. Moot, Assistant Secretary of Defense (Comptroller), given in an address before members of the Industrial College of the Armed Forces last year.

He said it is the Services which must challenge their own programs; perform the needed research and present their cases in Program Objectives Memoranda (POMs), development concept papers and other forms of program justification.

He made the point that everyone concerned with a program decision should think about costs and benefits and military effectiveness as well as the costs in formulating priorities throughout most of the Planning-Programming-Budgeting (PPB) cycle instead of just a few people at the end of the cycle.

Mr. Moot's thoughts were re-emphasized by T. Arthur Smith, Chairman, Defense Economic Analysis Council (DEAC), at a meeting late last month. He indicated that unless Commanders support the participatory management program it will not be successful. "You cannot legislate economic analysis into being. It must be pursued. There must be motivation," he told members of DEAC.

To Determine Progress

The meeting had been called to determine the progress being made by the three committees: Policy and Priorities Committee; Joint-Service Handbook Committee; and the Education Committee.

It is believed the initiatives of this group will provide the impetus for broad application of the participatory management philosophy within the Department of Defense.

The program has progressed from the "drawing board" stage. Economic analysis is in being and in operation. It is an integral part of the decision-making machinery within the Defense Department and will become more pronounced as it becomes more widely understood.

The present concept of economic analysis, as seen by Defense Department planners, is embodied in Department of Defense Instruction 7041.3, dated Feb. 26, 1969. The Directive is currently being revised by the Policy and Priorities Com-

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The Defense Economic Analysis Council met February 26 for its second formal conference. T. Arthur Smith, Council Chairman, second from right, asked for Committee progress reports and conducted business.

T. Arthur Smith, Chairman of the Defense Economic Analysis Council. Information about the Economic Analysis Program can be obtained by writing Mr. Smith, Room 2A-684, The Pentagon, Washington, D.C. 20301.

Economic Analysis

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mittee of DEAC with the intention of making it more clear.

Current Thinking

For example, what are the requirements; who are to do an analysis and when are they to do it? Current thinking is to take the procedures out of the Directive and specify policy only. The procedures will be published in a handbook prepared by DEAC's Handbook Committee and given wide distribution throughout the Services.

To better understand economic analysis a review of its many purposes is necessary.

The over-all program is a part of the Planning-Programming-Budgeting System (PPBS). It is Government-wide and Presidentially endorsed to improve methods used in planning, programming, budgeting and evaluating Federal programs.

Careful analysis of proposed expenditures and investments is an explicit part of the PPBS. It follows then, that the process of examining various alternatives in order to assure efficient and effective allocation of resources is a part of economic analysis.

Cost-Benefit

Budget guidance issued last year for the preparation of the Fiscal Year 1972 budget estimates called for cost-benefit information as a part of the regular supporting budget justification. The budget guidance read in part: "Budget submissions should, as a minimum, be accompanied with a statement that: (1) the submission is supported by an economic analysis, or (2) that an economic analysis is not required."

Here is how a Defense Department official explained it: When budget guidance went out about mid-year (1970) it explained that economic analysis was to be accomplished when "new funding" was involved or when there was a change to an "on-going" program.

Also, the guidance said it would not be necessary to submit all analyses up to the Office, Secretary of Defense level. In other words, there are many decisions that can be made at a lower level of command. This is in consonance with the participatory management—or decentralization—philosophy practiced by Secretary of Defense Melvin R. Laird and Deputy Secretary David Packard.

The primary purpose of economic analysis, as explained by Defense officials, is to force the decision-maker, in advance of the expenditure of any funds on a project or sub-project, to relate the cost of a project to the benefits in relation to the using organization's mission. Or, more simply, is the cost of the project worth the benefits expected to be derived from the project?

Daily Decisions

One analyst ventured to say that thousands of resource consumption decisions are made daily within the Defense Department where this question is never asked—or if it is asked—it is ignored.

He said the key consideration in trade-off or economic analysis is to look at Defense programs "at the margin."

That is, to identify changes in output due to change in dollars input, and then identify program priorities based on the relative contribution of alternative investments to achieving program objectives.

The basic function of an analysis is not to "automate" the process of decision-making, but rather to present a greater stock of information about the costs and benefits of Defense spending, and thereby assist a decision-maker in the selection of more rational courses of action.

It should be remembered that economic analysis is a systematic approach to a given problem, designed to assist a manager in solving a problem of choice. The full problem is investigated; objectives and alternatives are searched out and compared in the light of their benefits and costs through the use of an appropriate analytical framework.

What Is Needed?

Good words to be sure, but what is it that decision-makers want from economic analysis?

As one Defense official close to the problem said, "Clearly we must use our resources in the best possible manner. To some extent, scientific resource allocation is already proceeding under many different names—cost-effectiveness, cost-benefit, operations research, systems analysis, audit or what have you. Ideally, we would like to be able to compare all investments or expenditures throughout the Defense Department in a rational manner.

"We would like to be able to trade-off (at the margin) say, an extra destroyer against an extra missile battalion when the analysis shows a more favorable cost-benefit ratio for the battalion. We are, however, far from that point. But we are now able to compare and trade-off among a greater number and more varied kinds of investments than we have previously. In short, we have made great strides, but have far to go."

The beginning can be difficult, as first steps always are, but happily the mechanics of the problem along with the

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COMMANDERS DIGEST

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Editor John R. German

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Mr. Render Reviews Defense Minority Groups' Attractions

Department of Defense programs designed to attract individuals of minority groups to military life and better their lot in the Service are improving and expanding, says Frank W. Render II, Deputy Assistant Secretary of Defense (Equal Opportunity), the highest-ranking Negro civilian in the Defense Department.

Mr. Render outlined Defense's equal opportunity programs in two separate speeches in February. In the first address, Mr. Render discussed "The Black Soldier in the All-Volunteer Army" before the annual Social and Preventive Psychiatry Conference in the Forrestal Building in Washington, D.C., February 11. And, in Phoenix, Arizona, February 22, he spoke on "The Mexican-American and the Armed Forces" to delegates of a Conference on Education Problems of Mexican-American Servicemen and Veterans, sponsored by the American Association of Junior Colleges.

In his talk before the Washington group, Mr. Render noted that, "The black man has at last taken pride in the fact that his culture and heritage are not only unique to him but that they are as beautiful and meaningful as his fellow American's whose progenitors were not African. . . .

"Gaining one's identity, establishing one's pride, and reorganizing one's heritage and culture are merely a foundation for the development of the total person," he said. "Taking a meaningful and productive role in the society is the next step.

"We have seen this process take form in the military," Mr. Render continued. "The high retention rates of black noncommissioned officers can in large part be attributed, I believe, to the fact that in the Army this black man feels and is afforded responsibility. He can demonstrate his manhood and be respected by his subordinates, his peers, and his supervisors."

He pointed out that there was a different trend in the Army officers corps.

"Black field grade officers will soon outnumber black company grade officers," he explained. ". . . Our young, educated blacks do not perceive the current military in the same light as did those of the past. . . . It is no longer the case that the Army is the only place where the young black man can find responsibility and security, both in a financial and in a social sense.

Frank W. Render II

"What does all this mean in relation to the 'All-Volunteer Army'?" Mr. Render asked his audience. "It means the 'All-Volunteer Army' will have a black contingent if members of the black community perceive that such an Army will give the black man the opportunity to maintain the elements of his new-found foundation . . . and which will give the black man the opportunity to share in responsibility, success, and security."

The Deputy Assistant Secretary disagreed with a widely-held opinion that an "All-Volunteer Army" is tantamount to having, as he put it, "an All-Black Volunteer Army."

"If it appears," he explained, "that all the smart . . . whites are avoiding this Army, no black man will be interested either. . . . If we demonstrate at the outset that the 'All-Volunteer Army' is synonymous with quality and with responsibility, we will then create a climate of attractiveness for both blacks and whites. . . . Money alone is not the answer. It must be made clear that [all] men who are accepted into the 'All-Volunteer Army' are quality men. . . .

"It is absurd to assume that because whites are no longer required to spend time in the military that no white will now choose to volunteer and, therefore, only blacks will volunteer," he said.

"Whatever it is that [draws] men into the military—be it the pride of serving, the commitment to serve, the security of the Service, or whatever—these things will remain. These things touch the hearts and minds of men without regard to color.

"Add to this," he concluded, "the inducements which will become part and parcel of the 'All-Volunteer Army' and we have created our positive ingredient; we have created our requirement for quality; we have created responsibility; we have . . . created our 'All-Volunteer Army'."

In his speech at Phoenix, Mr. Render noted that "The great bulk of [Department of Defense] equal opportunity programs in the past have concentrated their efforts . . . on improving the conditions of the largest minority group in the Armed Forces—the black minority.

"However," he said, "all Armed Forces equal opportunity programs are conceptually broad in scope and are designed to benefit all minority group military personnel. . . . The Military Departments are inaugurating new programs and expanding existing programs to make the equal opportunity effort of the military specifically responsive to the problems of Mexican-Americans and to place particular emphasis on Mexican-American recruitment and retention . . ."

Mr. Render then cited some specifics of the Defense Department's equal opportunity programs, accordingly:

—A current study by the Army to develop plans to increase minority group participation in officer programs at the U.S. Military Academy, Reserve Officer Training Corps and Officer Candidate Schools. Each military academy has added a minority group officer to its recruiting staff; participation by minority groups, particularly black, has increased.

—A minority recruiting program, developed by the Navy over the past several years, includes, within the program, an enlargement of efforts to attract greater numbers of Mexican-Americans and Puerto Ricans. The Navy program utilizes Spanish-speaking officers and enlisted men and Spanish-language radio

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Attractions For Minorities

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and television programs. Recruitment efforts are also extended to potential officers in the Spanish-speaking communities.

—Studies to improve English language fluency tests, an Army policy, for all enlistees.

—A preparatory training instruction program, developed by the Army and consisting of basic education classes in reading, arithmetic and social studies has been established for enlistees who have demonstrated reading abilities below fifth-grade levels; the training, however, does not constitute a formal English language training program. Both the Navy and the Air Force have similar programs.

—English language training programs,

—English language training programs, available through correspondence courses, off-duty classes and general educational development programs, can be obtained at virtually every Army installation and at facilities of most other branches of Service as well.

—Project BOOST (Broadened Opportunities for Officer Selection and Training), a special program that enrolls selected candidates from deprived racial and ethnic groups for courses, ranging up to two years, at the Naval Academy Preparatory School at Bainbridge, Md., has been established to prepare them to compete successfully in college environments.

—Transition Prep, a program under which various colleges, with the assistance of local military installations, provides remedial motivational courses designed to encourage men who would otherwise not be expected to go to college to continue their education.

"The Mexican-American serviceman," Mr. Render concluded, "is serving, not just his community, but his country. Therefore, the various elements and mechanisms of the society which can function to better serve him are obligated to do so. The Military Departments are inaugurating and expanding existing programs to see to it that all personnel, specifically including Mexican-Americans, are afforded the opportunity to leave the Service with more potential and preparation than that with which he entered."

'Participatory Management' Aims Are Stressed

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tools to accomplish the job already have been established and are available at all echelons of the Defense Department.

The first step in economic analysis is to search out all alternatives to achieve the stated objective. **The second step is** to determine comparable costs and benefits for each alternative or mission. **The third step** is to compare alternative costs and benefits so as to identify the most efficient or effective approach.

Rests With Manager

Responsibility for assuring that cost-benefit analyses are performed rests ultimately with the individual manager. Good managers will carefully weigh the merits of alternative programs for which he is responsible and alternative ways to accomplish those programs. They will match resources with results at successive decision points over the life of a program (1) to determine if a program should be initiated, and later (2) to assure that it should be continued, or to determine if it should be terminated.

Determination of program priorities is a responsibility of managers at all organizational levels in the Defense Department. Sharp differences of opinion may exist concerning the relative importance of various functions and activities. But there should not be any question that, to the maximum extent possible, decisions which require resources should be based on sound cost-benefit analysis.

The question may arise as to when economic analysis should be used. Defense officials say there is a requirement for economic analysis in all defense investments and extending to all types of Defense spending. For example, weapons systems, construction projects, environmental projects, procurement of other items and services, manpower and combinations of the above items.

Since program projects are managed at a wide variety of levels within the Defense Department, economic analysis is required to support investment decisions at all of the following levels: Command, Sub-command, System Program Office, Base, Installation, Post or Station and Individual Units. All of these levels are faced with decisions involving allocations of resources.

Benefits "greater than" costs

To help people at all levels of command to better understand when to accomplish an economic analysis, the Defense Economic Analysis Council has established a Handbook Committee. The Committee's function is to develop a joint-Service handbook that provides installation and unit-level managers with explicit details on suggested procedures to follow in the preparation of an analysis. It will also furnish a reference library of analytical techniques which may be used for research purposes.

Of great utility will be the "do-it-yourself" explanation of approaching the problem of how to do a good analysis. Examples will be furnished with various analytic techniques spelled out, e.g., when would a regression analysis or break-even analysis be the best techniques for a given project? Or, how does one include inflation in an analysis, or treat intangible benefits?

Far Removed

Defense officials say they have seen "things" called economic analysis which are far removed from what a good analysis should be. According to one source, these "things" are, unfortunately, nothing more than summaries of statistical data. At Defense level, some analyses have been sent back to be redone because they were nothing more than figures or a restatement of funding information. They failed to answer the fundamental question: Will the results (benefits) be worth the costs if this project is approved?

From some of the analyses that reached Defense level, officials are studying ways of strengthening future analytical studies used to support budget submis-

sions. The goal is to strengthen the entire Defense decision-making process by having comprehensive analyses done ahead of time before the budget is put together and before decisions are made at lower levels of Command.

Analytical Activity

Panel discussions have brought to light that much of the analytical activity to date is of a lower quality than it warranted relative to the skills available within the Defense community.

One of the problems appears to be that senior decision-makers all too often wish to be told things they like to hear, rather than the cold truth. For an analyst, it is often dangerous to present his boss with bad news about a "pet" project, especially at a late date when there is little room to maneuver. It was emphasized that analysts should give careful thought to how best to convey and report on the results of an analysis, and that superiors should also give this problem some attention when they request study.

Also, it has been noted in numerous panel discussions that **an economic analysis must be made before** the decision is made. In other words, a decision is to be made considering the results of a complete economic analysis. Hopefully, the alternatives are all there and the cost-benefit and cost-effective analysis has been made. When a decision-maker has studied his alternatives, backed up by appropriate analysis, and then makes his choice, that project is more likely to be funded.

Provide Support

Another facet not widely understood is that it is not Comptroller personnel who are to be the "economic analysts." Comptroller staffs will be able to provide necessary support and advice in designing an analysis. But the managers, the functional people, are the ones who have the technical knowledge about effectiveness, operational performance, and so on. They are the decision-makers; they make the trade-offs; and are responsible for assuring that their decisions are supported by sound analysis.

A basic example could be: An installation function wants funding for new construction and initiates a project. They

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Defense Lists Committees To Guide Economic Analysis

The Chairman, Chairmen of Committees, members and observers of the Defense Economic Council meeting:

Office of Secretary of Defense

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Charles Alcorn
OASD (I&L)

R. Tremontano
OASD (Telecommunications)

Joint Chiefs of Staff

Lieut. Col. J. L. Lockley
Joint Chief of Staff, J-5

Lieut. Col. L. E. Williams (Alternate)
Joint Chiefs of Staff, J-5

Department of Army

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Chairman, Policy and Priorities Committee, DEAC
OASA (FM)

T. Arthur Smith
Chairman, Defense Economic Analysis Council
Director of Cost Analysis

Capt. Peyton L. Wynns, USA
Executive Secretary, DEAC
Office of the Comptroller, DA

Maj. James McCall (Alternate)
OASA (FM)

Department of Navy

Capt. Lloyd Yeich, USN
Department of Navy, NCB-2
Director, Cost Review and Reports Div.

Joseph Perry
Chairman of Education Committee, DEAC
Department of Navy, NCB-2

Department of Air Force

Maj. Stephen J. Optiz, Jr.
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Chairman, Handbook Committee, DEAC
Division Chief for Management Services
Management Analysis Directorate
Department of Air Force

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Deputy Div. Chief for Management Services Div.
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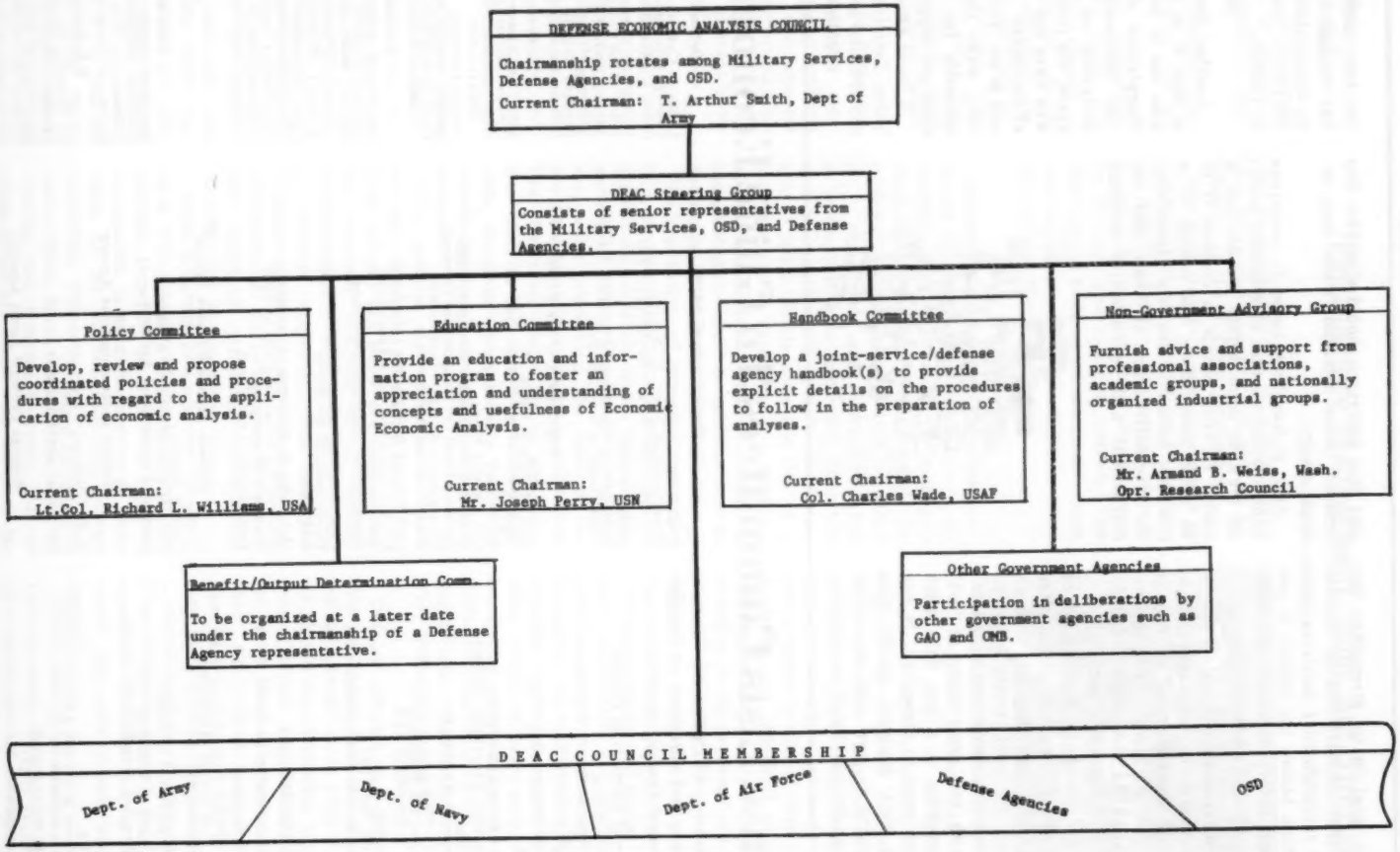
Armand B. Weiss

— DEAC ORGANIZATIONAL CHART —


DEFENSE ECONOMIC ANALYSIS COUNCIL
Chairmanship rotates among Military Services, Defense Agencies, and OSD.
Current Chairman: T. Arthur Smith, Dept of Army
DEAC Steering Group
Consists of senior representatives from the Military Services, OSD, and Defense Agencies.
Policy Committee
Develop, review and propose coordinated policies and procedures with regard to the application of economic analysis.
Current Chairman:
Lt.Col. Richard L. Williams, USA
Education Committee
Provide an education and information program to foster an appreciation and understanding of concepts and usefulness of Economic Economic Analysis.
Current Chairman:
Mr. Joseph Perry, USN
Handbook Committee
Develop a joint-service/defense agency handbook(s) to provide explicit details on the procedures to follow in the preparation of analyses.
Current Chairman:
Col. Charles Wade, USAF
Non-Government Advisory Group
Furnish advice and support from professional associations, academic groups, and nationally organized industrial groups.
Current Chairman:
Mr. Armand B. Weiss, Wash. Opr. Research Council
Benefit/Output Determination Comm.
To be organized at a later date under the chairmanship of a Defense Agency representative.
Other Government Agencies
Participation in deliberations by other government agencies such as GAO and OMB.
DEAC COUNCIL MEMBERSHIP
Dept. of Army
Dept. of Navy
Dept. of Air Force
Defense Agencies
OSD

Economic Analysis

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conduct an economic analysis, coordinate with the Comptroller, and send the completed package to the commander for his review and acceptance or disapproval. How well the analysis has been done will generally spell the difference between approval or disapproval because the decision-maker has a better basis for studying the options and choices open to him.

The Defense Department is methodically setting the machinery in motion anticipating the day when economic analysis is a routine procedure at military installations. As of now, Service auditors have been asked by the Defense Economic Analysis Council to include as a "high interest item" in their auditing program a selective evaluation of economic analysis. In this way, the Defense Department can see what extent the program is being implemented by the Services. An economic analysis workshop sponsored by professional organizations that are members of the DEAC Advisory Committee is being considered, and a workshop for auditors is also being considered.

Then, too, it has been recommended that Service educational institutions become more involved by including economic analysis in their curricula. Many of the Service schools already feature this analytic approach to decision-making in existing courses.

Tackles Problem

The Army Materiel Command's Munitions Command, CONUS, energetically practices economic analysis. It tackled the problem systematically, step by step.

The first step was to revise its regulations (MUCOM Reg. 11-16) to include incorporation of changes by higher headquarters, re-define functional responsibilities and include a discussion of inflationary trends and documentation.

In the next step, the commanding general and his key staff personnel were briefed. Main purpose of this briefing was to focus attention on the fact that MUCOM will be directing new energies to an already existing economic analysis effort. Emphasized were tangible benefits, surfacing of additional alternatives which might not be apparent, if not for the economic analysis. A letter by the commanding general outlines command emphasis and the desired direction which the expanded economic analysis program will take.

The third step calls for disseminating economic analysis information which becomes available from the Defense Department, Department of Army, other Defense Services, other Federal agencies, the Army Materiel Command as well as non-Government sources.

Uses Newsletter

The MUCOM Comptroller Office will pass along pertinent information to the using activities. A newsletter is being used to disseminate information of value to using activities.

Also, it is planned to make orientation visits to MUCOM's functional directorates, the arsenals and some of the larger ammunition plants. Purpose of the visits will be to brief the local commander by explaining the expanded program and to stress the benefits which can be gained.

The Army's Munition Command has emphasized that every Defense manager has a commitment to insure the efficient and effective utilization of resources. The experience has been that economic analysis can assist the manager accomplish that objective.

It is true that economic analysis sometimes is hard to recognize. A Navy spokesman, and member of the DEAC, said the system is now being used within the Navy as it is throughout the Defense Department.

For example, in the area of military construction analyses, prepared in accordance with the Navy economic instruction, are being used to support, and are included as a part of, the annual budget submissions.

Weapon Systems

Extensive analyses also are performed by "systems analysis" organizations within the Navy and by contractors, such as the Center for Naval Analysis, to determine the economic feasibility of major weapons systems.

These systems are analyzed not once but several times, as they proceed from a concept to a piece of hardware. Economic analyses also support decisions to purchase or lease data processing equipment.

In fact, a Navy auditor's guide for automatic data processing (ADP) has been published to help auditors check on the validity of economic analyses performed. The principles of economic analysis also are applied to other activities such as those requiring cost comparisons as directed by the Office of Management and Budget Circular A-76 which deals with decisions to rely on Government activities or upon a commercial resource.

Good Example

Another good example of economic analyses at work was cited by the Deputy for Development and Planning, Aeronautical Systems Division, Wright-Patterson AFB, Ohio. It seems that increased landing gear performance requirements had resulted in increased design complexity and the need for more sophisticated testing. Then, too, there had been no significant change or advancement in landing gear test equipment procedures or methodology since the 1920s.

So the officials at Wright-Paterson asked this question: Can the design and testing problems associated with new and improved aircraft landing gear be more completely, effectively and economically solved by the procurement and operation of a Landing Gear Dynamic Test Support System (LAGDYN) Facility, and is the expenditure of funds for this purpose justified?

In brief, an economic analysis was conducted to evaluate system performance and the cost savings of the LAGDYN concept in accordance with DOD Instruction 7041.3. The results of the study indicated that the proposed LAGDYN facility program was economically sound as based on the criteria established in DODI 7041.3. This conclusion was supported by an analysis of the best available estimates of costs and resulting benefits, plus a wide range of contingency values which might increase costs or reduce potential benefits.

The Air Training Command at Randolph AFB, Texas, has aggressively and profitably pursued the application of economic analysis. For one thing, it has adopted the economic analysis approach in responding to increasing demands for financially-oriented management.

Staff Receptive

The ATC staff has been receptive and the Accounting System for Operations provides the basic data required for program-oriented management. They say the biggest challenge is how to apply the techniques and procedures of modern management science and use them to

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Economic Analysis

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solve present-day financial problems. This is systematically being worked out.

For example, because of inflation, maintenance of the ATC 1966 level of pilot production would have resulted in an increase of $13,000 per pilot in 1969. By increasing the capacity of existing facilities to support a larger training program, ATC has been able to achieve a higher production, thus off-setting the cost of living increases. As a result, ATC has been able to maintain virtually a constant cost per pilot during the past four years.

Generally, ATC officials believe that managers can best be brought to a full awareness and understanding of the implications of resource consumption through the medium of variance analysis. They believe an absolute prerequisite to efficient management of resources in performance of any function is an understanding of cost behavior in relation to the function and of actual costs and benefits in relation to original estimates.

Action Taken

Here is what the ATC has done—and is doing—since AF Regulation (AFR 172-2), implementing "Economic Analysis of Proposed Department of Defense Investments" was published.

—a review of the directives to determine their applicabilty to the Air Training Command in order that appropriate supplementary directives could be developed.

—A review of existing related systems was conducted to determine if they are adequately complying with the policies and procedures outlined in the directives.

—A member of the staff was nominated to attend the Economic Investment Analysis course conducted by the U.S. Civil Service Commission in Washington, D.C. last year.

—Conducted numerous analytic studies for local management purposes.

The Air Training Command knows the value of accurate and reliable data to its analysts and managers. Two electrical digital computer/calculators which can be used for either simple calculations or complex computations are located within the cost analysis activity.

The equipment permits the development and application of methods and techniques for collecting, analyzing and interpreting quantitative data in such a way that the reliability of conclusions based on the data may be evaluated objectively in terms of probability statements.

The output from ATC computers is best described as "management-oriented" data and its aim is to cater to the manager's convenience.

Data Provided

The analytic and financial data provided to management, ATC believes, must highlight inconsistencies and irregularities. It should provide the manager with information needed to compare his operation with other comparable activities from one time period to another.

Then, too, the data relates costs and outputs of operations in terms meaningful to management. Reports contain the essential data needed for economic analysis without further manipulation, references to old reports, or need for rearrangement. The results of analyses are arrayed for management in such a way as to highlight decisions demanding action.

Austere budgets often prompt the identification and implementation of much needed management improvements to better utilize resources. The ATC did some analyzing of its own to determine what action should be taken, and then realized that Command reactions to severe budgetary deficiencies run in a traditional vein. For example, manpower reductions come to mind immediately.

Consolidation

They found, too, that consolidation of activities and/or substitution of the use of equipment for labor resulted in significant improvements. Many times there are temptations to eliminate selected activities, such as the social programs. Finally, a Command must consider program reductions to achieve the necessary balance between fund availability and requirements.

These are familiar problems facing local commanders and managers and they are real; but they also have some disadvantages.

For instance, they assume a certain level of inefficiency which may or may not be true; they may assume certain programs are essential, which may or may not be true. Then, too, the yield (results) from such actions is very limited since they are subject to the law of diminishing returns. The greatest disadvantage, however, lies in the fact that they constitute an instinctive reaction to fund limitations rather than a considered response.

One Defense Department official said he believes every commander and manager in the Department of Defense has a personal commitment and an obligation to insure the efficient and effective use of resources. Experience shows that economic analysis can assist him in accomplishing that objective.

Greater Effort

He said there are still numerous opportunities for proving the utility of this concept. For example, greater efforts must be made to integrate these analyses into the program/budget process to support program/budget submissions. **While economic analysis should not become the "be-all and end-all" in making resource management decisions, he continued, it is becoming increasingly apparent that new funding requirements should not be authorized unless local managers have a suitable economic analysis to back-up their decisions.**

As Mr. Moot said last year (in the following two excerpts) ". . . the Services are required to think systematically about the costs and benefits of alternatives to current and planned programs . . ." and he added: ". . . it is the Services which must challenge their own programs; perform the needed research and present their cases . . ."

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